Report

of the

Examination of

OneBeacon Midwest Insurance Company

Boston, Massachusetts

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 5, 2004

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Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

ONEBEACON MIDWEST INSURANCE COMPANY
BOSTON, MASSACHUSETTS

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of OneBeacon Midwest Insurance Company (the company) was conducted in 1998, as of December 31, 1996. The current examination covered the intervening period ending December 31, 2001, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report. The examination was conducted with Pennsylvania and other participating states. Pennsylvania was the lead state in this examination. This examination relied on the work performed or directed by Pennsylvania on pooled accounts.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Pennsylvania Insurance Department. They reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1991 as Commercial Union Midwest Insurance Company. Operations began in 1992, primarily writing direct business in Wisconsin and Kansas along with participation in an affiliated reinsurance pool as a member of the CGU Insurance Group. The company subsequently became licensed in North Carolina, Connecticut, Georgia, Virginia, Indiana, New York, and Wyoming. Merger and sale of the United States property and casualty operations into White Mountains Insurance Group was consummated effective June 1, 2001. The company name was changed to that currently used in September 2001.

In 2001, the company wrote direct premium in the following states:

Connecticut	$ 57,916,127	26.2%
New York	53,579,251	24.3
Wisconsin	46,113,036	20.9
Indiana	36,205,054	16.4
Georgia	19,617,973	8.9
All others	7,178,078	3.3
Total	$220,609,519	100.0%

The company is licensed in Wisconsin, Kansas, North Carolina, Connecticut, Georgia, Virginia, Indiana, New York and Wyoming. The company had no premium in Wyoming in 2001.

The major products marketed by the company include private passenger auto liability, auto physical damage, commercial multiple peril, and homeowners multiple peril. The company entered into a renewal rights agreement with Liberty Mutual's Regional Agency Markets Group effective November 1, 2001. The agreement calls for OneBeacon's new and renewal property and casualty business and staff in 42 states and DC to be transferred to Liberty. This did not include specialty lines including agribusiness and ocean marine. OneBeacon participated in the renewal business through quota share reinsurance on policies expiring through October 31, 2003, or one year following full implementation of the transition plan. The company also held an option to continue reinsurance participation for three more years, but declined. To insure a smooth transition, service agreements were put into effect between the companies. OneBeacon was paid 3% of the 2003 direct renewal premium written generated from this agreement as consideration. This office's Bureau of Regulation is conducting a review of the transfer of business in regards to compliance with Wisconsin Statutes. The company is currently writing very little business (see Agents Listing section of this report).

The following table is a summary of the net insurance premiums written by the company in 2001. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$926,456	$59,030	$926,456	$59,030
Allied lines	689,840	77,900	689,840	77,900
Farmowners multiple peril	2,945,847	201,138	2,945,847	201,138
Homeowners multiple peril	53,793,620	1,061,729	53,793,620	1,061,729
Commercial multiple peril	10,255,543	940,192	10,255,543	940,192
Mortgage guaranty				
Ocean marine	1,274,557	296,197	1,274,557	296,197
Inland marine	3,066,062	366,101	3,066,062	366,101
Medical malpractice - occurrence		194		194
Earthquake	468,150	16,206	468,150	16,206
Group accident and health		10,263		10,263
Other accident and health		22		22
Workers' compensation	7,892,524	854,977	7,892,524	854,977
Other liability - occurrence	7,465,925	-2,261,655	7,465,925	-2,261,655
Other liability - claims made		1,757		1,757
Products liability - occurrence	33,039	-535,085	33,039	-535,085
Private passenger auto liability	68,009,961	1,835,256	68,009,961	1,835,256
Commercial auto liability	9,221,360	979,312	9,221,360	979,312
Auto physical damage	54,501,421	1,625,046	54,501,421	1,625,046
Aircraft (all perils)		1,957		1,957
Fidelity	4,471	739	4,471	739
Surety		-35,854		-35,854
Burglary and theft	328	529	328	529
Boiler and machinery	60,413	-744	60,413	-744
Credit		106,983		106,983
Reinsurance - non-proportional assumed property		1,001		1,001
Reinsurance - non-proportional assumed liability		4,170		4,170
Total All Lines	$220,609,517	$5,607,361	$220,609,517	$5,607,361

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Alexander Constantine Archimedes Bridgewater, NJ	Insurance Executive OneBeacon Insurance Company	2004
Andrew Coleman Carnase Norfolk, MA	Insurance Executive OneBeacon Insurance Company	2004
John Paul Cavoores Highlands, NJ	Insurance Executive OneBeacon Insurance Company	2004
Charles Bergen Chokel Pepper Pike, OH	Insurance Executive OneBeacon Insurance Company	2004
Morgan Wesley Davis Granite Bay, CA	Insurance Executive OneBeacon Insurance Company	2004
Gregory Robert Galeaz Holliston, MA	Chief Financial Officer OneBeacon Insurance Company	2004
Richard Page Howard Guilford, CT	Insurance Executive OneBeacon Insurance Company	2004
Stuart Noel Lerwick Wellesley, MA	Chief Actuary OneBeacon Insurance Company	2004
Thomas Norman Schmitt Duxbury, MA	Human Resources Director OneBeacon Insurance Company	2004
Roger Milgram Singer Belmont, MA	General Counsel OneBeacon Insurance Company	2004

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2003 Compensation
John Paul Cavoores	Chairman of the Board, President	$1,413,376
Secretary	Dennis Robert Smith	172,184
Treasurer	Gregory Peter Winn	185,096
Actuary	Stuart Noel Lerwick	514,684

The above compensation is paid and allocated by affiliates of the company.

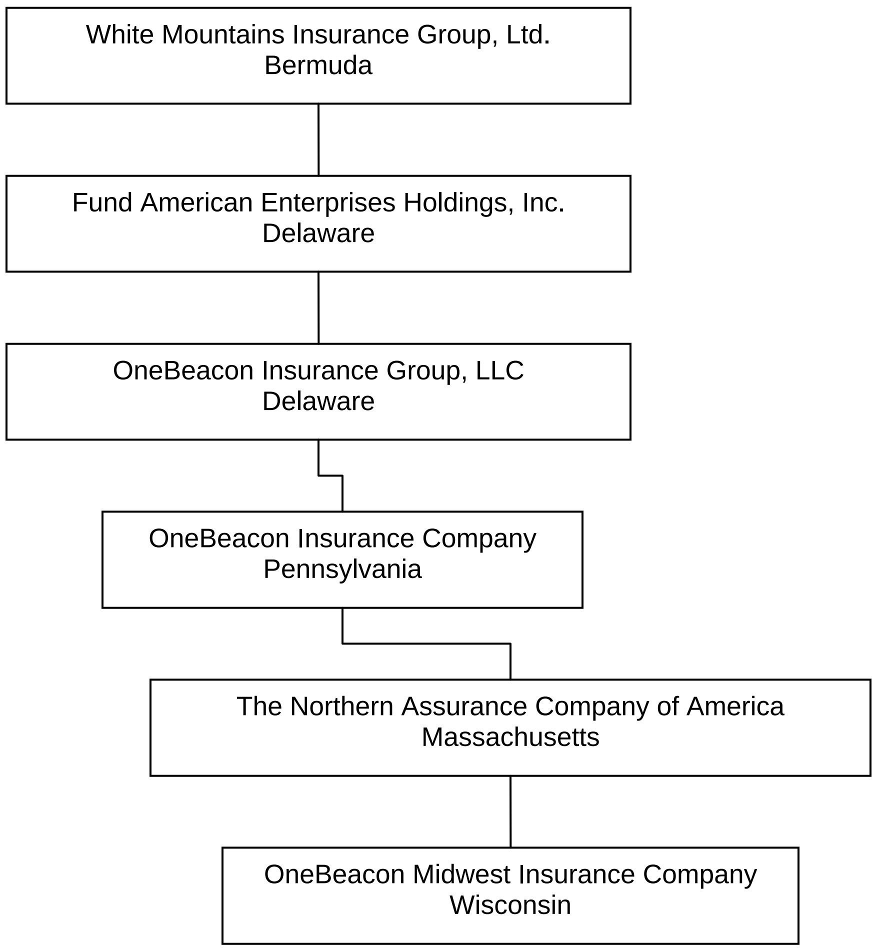
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The board had no committees.

IV. AFFILIATED COMPANIES

OneBeacon Midwest Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the selected affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2002



White Mountains Insurance Group, Ltd.

White Mountains Insurance Group, Ltd., is the ultimate parent and an insurance holding company. As of December 31, 2001, the company's audited financial statement reported assets of $16,492,800,000, liabilities of $14,877,900,000, minority equity interest of $170,300,000 and common shareholder equity of $1,444,600,000. Operations for 2001 produced a net loss of $259,300,000.

Fund American Enterprises Holdings, Inc.

Fund American Enterprises Holdings, Inc., is another holding company in the organization and is the parent of OneBeacon Insurance Group, LLC. As of December 31, 2001, the company's audited financial statement reported assets of $16,139,700,000, liabilities of $14,694,900,000, minority equity interest of $ 170,300,000 and common shareholder equity of $1,271,500,000. Operations for 2001 produced a net loss of $241,000,000.

OneBeacon Insurance Group, LLC

OneBeacon Insurance Group, LLC, is the holding company of OneBeacon Insurance Company and its subsidiaries, including the company. As of December 31, 2001, the company's audited financial statement reported assets of $9,554,491,000, liabilities of $7,267,594, and capital and surplus of $2,286,897,000. Operations for 2001 produced a net loss of $416,393,000.

OneBeacon Insurance Company

OneBeacon Insurance Company is a Pennsylvania-domiciled property and casualty insurer and is the lead company in the pooled business. As of December 31, 2001, the company's audited financial statement reported assets of $5,830,255,000, liabilities of $4,031,942, and policyholders’ surplus of $1,798,313,000. Operations for 2001 produced a net loss of $168,959,000.

The Northern Assurance Company of America

The Northern Assurance Company of America is a property and casualty insurer and a direct parent of the company. As of December 31, 2001, the company's audited financial statement reported assets of $465,460,000, liabilities of $349,486,000, and policyholders’ surplus of $115,974,000. Operations for 2001 produced a net loss of $24,202,000.

Agreements with Affiliates

Asset Management Agreement

The agreement calls for White Mountains Advisors, LLC. (WMA), (formally, OneBeacon Asset Management, Inc.) to supervise and direct the investments of the company. WMA has full discretion and authority without obtaining prior permission to make all investment decisions. The investment account, as defined in the agreement, will be held in one or more banks meeting the requirements of Wisconsin law. WMA is to be paid a fee quarterly, within 10 days after the end of each quarter. The fee is based on the amount of assets under management at the end of each quarter.

Tax Allocation Agreement

The company is a party to an affiliated Tax Allocation Agreement. There were two agreements in 2001. The first agreement period was January 1 to June 1. The second agreement was effective June 2, 2001. The current agreement calls for the company to pay its tax due or receive its refund as if filing separately. Payments are to be paid within 30 days of filing the estimated or actual consolidated income tax return, except for refunds which will be paid within 30 days of receipt of the refund.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. The company is part of a reinsurance pool with 12 affiliates. The affiliated companies are part of the OneBeacon Insurance Group, LLC. OneBeacon Insurance Company is the lead company of the pool. Each company cedes 100% of its business to the lead company. After recording the assumed transactions noted above, the lead company records 100% of the external assumed and ceded reinsurance activity reflecting all non-affiliated reinsurance on Schedule F. The lead company’s remaining net underwriting activity, after processing all external reinsurance, is then retroceded to the pool members in accordance to each company’s pooling percentage as noted below. As a result of this procedure, the lead company retains 100% of the group provision for unauthorized reinsurance. Uncollectible reinsurance is ceded to the pool companies in accordance with each company’s pooling percentage.

Company	Pool Percentage
OneBeacon Insurance Company	54.0%
OneBeacon America Insurance Company	14.3%
The Camden Fire Insurance Company	7.0%
Homeland Insurance Co of New York	6.5%
The Northern Assurance Co of America	5.0%
Pennsylvania General Insurance Company	4.5%
American Employers’ Insurance Company	4.2%
PG Insurance Company of New York	1.5%
The Employers’ Insurance Company	1.5%
General Assurance Company	.6%
Potomac Insurance Company of Illinois	.5%
OneBeacon Midwest Insurance Company	.3%
American Central Insurance Company	.1%
Total	100.0%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2001, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

OneBeacon Midwest Insurance Company
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$54,327,319	$	$54,327,319
Cash	258,775		258,775
Receivable for securities	7,684		7,684
Premiums and agents' balances in course of collection	151,555		151,555
Premiums, agents' balances, and installments booked but deferred and not yet due	2,809,499	3,600	2,805,899
Accrued retrospective premiums	47,117	4,712	42,405
Funds held by or deposited with reinsured companies	11,803		11,803
Amounts receivable under high deductible policies	40,523	450	40,073
Reinsurance recoverable on loss and loss adjustment expense payments	222,007		222,007
Federal and foreign income tax recoverable and interest thereon	591,015		591,015
Guaranty funds receivable or on deposit	5,987		5,987
Electronic data processing equipment and software	45,455	20,250	25,205
Interest, dividends, and real estate income due and accrued	738,979		738,979
Net adjustments in assets and liabilities due to foreign exchange rates			
Receivable from parent, subsidiaries, and affiliates	242,930		242,930
Equities and deposits in pools and associations	7,953		7,953
Other assets nonadmitted:			
Furniture, equipment, and supplies	19,580	19,580	0
Write-ins for other than invested assets:			
Sundry Balances	636,027	181,370	454,657
Loss Suspense	38,279		38,279
Funds held by company or agents under reinsurance treaties	205	14	191
Total Assets	$60,202,692	$229,976	$59,972,716

OneBeacon Midwest Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Losses		$11,852,293
Reinsurance payable on paid loss and loss adjustment expenses		162,052
Loss adjustment expenses		2,246,583
Commissions payable, contingent commissions, and other similar charges		194,486
Other expenses (excluding taxes, licenses, and fees)		459,714
Taxes, licenses, and fees (excluding federal and foreign income taxes)		202,916
Federal and foreign income taxes		198,000
Unearned premiums		4,237,482
Dividends declared and unpaid:		
Policyholders		11,415
Ceded reinsurance premiums payable (net of ceding commissions)		256,612
Funds held by company under reinsurance treaties		135,936
Amounts withheld or retained by company for account of others		834
Drafts outstanding		568,862
Write-ins for liabilities:		
Accounts Payable		272,712
Pension Liabilities		205,281
Reserve for Uninsured Losses		23,161
Total Liabilities		21,028,339
Common capital stock	$ 2,500,000	
Gross paid in and contributed surplus	32,665,000	
Unassigned funds (surplus)	3,779,378	
Surplus as Regards Policyholders		38,944,378
Total Liabilities and Surplus		$59,972,717

OneBeacon Midwest Insurance Company
Summary of Operations
For the Year 2001

Underwriting Income		
Premiums earned		$ 7,065,080
Deductions:		
Losses incurred	$6,558,909	
Loss expenses incurred	731,222	
Other underwriting expenses incurred	3,056,047	
Total underwriting deductions		10,346,178
Net underwriting loss		(3,281,098)
Investment Income		
Net investment income earned	2,729,530	
Net realized capital gains	1,764,409	
Net investment gain		4,493,939
Other Income		
Net loss from agents' or premium balances charged off	(59,568)	
Finance and service charges not included in premiums	68,855	
Write-ins for miscellaneous income:		
Miscellaneous Income and expenses	(672,193)	
Total other income		(662,906)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		549,935
Dividends to policyholders		43,200
Net income after dividends to policyholders but before federal and foreign income taxes		506,735
Federal and foreign income taxes incurred		(232,993)
Net Income		$ 739,728

OneBeacon Midwest Insurance Company
Cash Flow
For the Year 2001

Premiums collected net of reinsurance			$6,902,728
Deduct:			
Loss and loss adjustment expenses paid (net of salvage or subrogation)			9,429,498
Underwriting expenses paid			2,757,762
Cash from underwriting			(5,284,532)
Net investment income			3,342,674
Other income (expenses):			
Agents' balances charged off		($59,568)	
Net funds held under reinsurance treaties		30,238	
Net amount withheld or retained for account of others		1,143	
Write-ins for miscellaneous items:			
Finance and service charges not included in premiums		68,855	
Equities and deposits in pools and associations		607	
Surplus adjustment		(142,050)	
Miscellaneous income and expenses		(672,192)	
Total other income			(772,967)
Deduct:			
Dividends to policyholders paid			63,887
Federal income taxes paid (recovered)			95,007
Net cash from operations			(2,873,719)
Proceeds from investments sold, matured, or repaid:			
Bonds	$67,587,931		
Net gains or (losses) on cash and short-term investments	439		
Total investment proceeds		67,588,370	
Cost of investments acquired (long-term only):			
Bonds	64,886,691		
Miscellaneous applications	7,684		
Total investments acquired		64,894,375	
Net cash from investments			2,693,995
Cash provided from financing and miscellaneous sources:			
Net transfers from affiliates	(1,236)		
Other cash provided	501,921		
Total		500,685	

Cash applied for financing and miscellaneous uses:			
Net transfers to affiliates	(5,426)		
Other applications	336,737		
Total		331,311	
Net cash from financing and miscellaneous sources			169,374

Reconciliation

Net change in cash and short-term investments	(10,350)
Cash and short-term investments, December 31, 2001	269,124
Cash and short-term investments, December 31, 2002	$258,774

OneBeacon Midwest Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2001

Assets			$59,972,716
Less security surplus of insurance subsidiaries			0
Less liabilities			21,028,339
Adjusted surplus			38,944,377
Annual premium:			
Individual accident and health	$22		
Factor	15%		
Total		$ 3	
Group accident and health	10,263		
Factor	10%		
Total		2,036	
Lines other than accident and health	5,553,876		
Factor	20%		
Total		1,110,775	
Compulsory surplus (subject to a minimum of $2 million)			2,000,000
Compulsory surplus excess (or deficit)			$36,944,377
Adjusted surplus (from above)			$38,944,377
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			2,800,000
Security surplus excess (or deficit)			$36,144,377

OneBeacon Midwest Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2001	**2000**	**1999**	**1998**	**1997**
Surplus, beginning of year	37,454,062	37,181,374	15,593,797	19,870,360	18,677,349
Net income	739,728	271,559	1,670,152	(3,883,604)	914,156
Net unrealized capital gains or (losses)			204,581	199,897	346,893
Change in net deferred income tax	(161,017)				
Change in non-admitted assets	167,949	27,722	(82,575)	38,507	(43,720)
Cumulative effect of changes in accounting principles	654,680				
Surplus adjustments:					
Paid in	165,000		20,000,000		
Write-ins for gains and (losses) in surplus:					
Prior Year Adjustment	(76,025)				
Sale of EDP Equipment		125		25	66
Pension Costs		(26,718)		(24,230)	(24,384)
Change in Bond Amortization			(204,581)		
Merger Costs				(607,158)	
Surplus, end of year	38,944,377	37,454,062	37,181,374	15,593,797	19,870,360

OneBeacon Midwest Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2001

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2001**	**2000**	**1999**	**1998**	**1997**
#1	Gross Premium to Surplus	581.0%	571.0%	456.0%	999.0%	670.0%
#2	Net Premium to Surplus	14.0	35.0	20.0	124.0	90.0
#3	Change in Net Writings	-57.0*	80.0*	-62.0*	8.0	1.0
#4	Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	110.0*	100.0*	112.0*	105.0*	91.0
#6	Investment Yield	5.00	6.30	5.22	6.64	6.80
#7	Change in Surplus	5.0	-1.0	119.0*	-18.0*	6.0
#8	Liabilities to Liquid Assets	36.0	40.0	37.0	78.0	66.0
#9	Agents' Balances to Surplus	0.0	1.0	0.0	4.0	2.0
#10	One-Year Reserve Devel. to Surplus	-7.0	6.0	0.0	27.0*	4.0
#11	Two-Year Reserve Devel. to Surplus	-1.0	13.0	12.0	33.0*	7.0
#12	Estimated Current Reserve Def. To Surplus	-15.0	9.0	10.0	13.0	4.0

Ratio No. 3 measures the change to net writings from one year to the next. The exceptional results in 2001 are due in part to the company's planned underwriting initiatives about becoming more selective and disciplined. In 2000, the exceptional result is due to an increase after the prior years' significant decrease. Pooled business decreased in 1999 due to a change in pool percentage from 1% to 0.3%.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 2000 and 2001 were due to reserve strengthening of the group's auto liability coverages as well as certain commercial lines which was recorded in 2000. 1998 and 1999's ratios were also affected by reserve strengthening in 1998.

Ratio No. 7 measures the change in surplus from the prior year. In 1998, the change was the result of a large loss. The large loss was due in part to reserve strengthening by the group. In 1999, the increase was due to a capital contribution of $20 million.

The unusual results for ratio numbers 10 and 11 in 1998 were the result of reserve strengthening.

Growth of OneBeacon Midwest Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2001	$59,972,716	$21,028,339	$38,944,378	$739,728
2000	61,326,449	23,872,393	37,454,062	271,558
1999	57,648,939	20,467,564	37,181,374	1,670,153
1998	56,877,261	41,283,464	15,593,797	(3,883,603)
1997	55,288,826	35,418,465	19,870,360	914,155
1996	52,983,007	34,305,657	18,677,349	922,785

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2001	$226,216,878	$5,607,361	$7,065,080	103.2%	66.3%	169.5%
2000	213,835,561	13,192,698	12,668,486	97.1	25.7	122.8
1999	169,658,392	7,348,427	11,209,768	75.3	50.6	125.9
1998	156,157,879	19,278,267	18,663,312	105.9	31.0	136.9
1997	133,187,283	17,848,104	17,709,905	76.9	30.4	107.3
1996	73,315,314	17,636,110	17,379,526	80.4	28.9	109.3

Assets increased 13.2 % since the last examination, from $52,983,007 in 1996 to $59,972,716 in 2001. Liabilities decreased 38.7% since the last examination, from $34,305,657 in 1996 to $21,028,339 in 2001. Surplus increased over the period due mainly to a $20,000,000 contribution in 1999. The company suffered a large net loss in 1998 due in part to poor underwriting and reserve strengthening. The company is part of a reinsurance pool. The following events impacted the company's premiums. In 1999, the company's share of the pool was decreased from 1% to 0.3%. In 2000, Norwich Union plc was acquired by CGU, plc, which then changed its name to CGNU, plc. The U.S. property and casualty companies included in the U.S. CGU Group, including the company, were sold to White Mountains Insurance Group, LLC in 2001.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination:

Surplus December 31, 2001, per annual statement			$38,944,378
	Increase	**Decrease**	
Premiums and agents' balances and installments booked but deferred	$	$ 32,400	
Funds held by or deposited with reinsured companies		2,508	
Reinsurance recoverables on loss and loss adjustment expense payments		24,343	
Loss reserve		1,029,800	
Loss adjustment expense reserve		195,200	
Reinsurance payable on paid loss and loss adjustment expense		4,698	
Ceded reinsurance premiums payable		9,814	
Funds held by company under reinsurance treaties			
Net increase or (decrease)	$	$1,298,763	1,298,763
Surplus December 31, 2001, per examination			$37,645,615

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

Delays In Retrieving Examination Requested Information

During the course of this examination the lead state examiners and participating states examiners encountered significant delays in retrieving requested information from the company. These delays negatively impacted the efficiency and completion of this examination. For a significant period of time during the early stages of the examination, management was slow to respond to examination requests for documentation.

It should be noted however, that during the latter part of the examination, the company under new management roles took a more active role in the examination process and implemented the necessary changes to facilitate the examination process.

Agents Listings

The examiner requested a listing of agents listed to sell insurance in the state of Wisconsin. The company was unable to provide an accurate agent list. During the transfer of business to Liberty (described in the History and Plan of Operation section), no department was assigned the responsibility for maintaining this list. The company is writing business very little business in Wisconsin at this time. However, the parent plans on using the company to acquire some of the commercial business being acquired from Atlantic Specialty (see Subsequent Events section of this report), after the non-compete agreement with Liberty expires in late 2004. This would mean the company would need a system to track agents listed to accept business written in Wisconsin. It is recommended that before the company begins to solicit business it carefully review and compare the Annual Renewal Billing sent by the commissioner to the company's agent database, promptly initiate an investigation into the reason(s) an agent either does or does not appear on the Annual Renewal Billing when the company shows an active agent appointed to represent the company or appears on the Annual Renewal Billing when the company does not show the agent as appointed to represent the company and take the appropriate action to rectify the situation, to ensure compliance with s. Ins 6.57 (1) and (2), Wis. Adm. Code.

Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due

The group could not adequately support the net reported balance of $10.8 million for the pooled earned but unbilled premium receivable. Consequently, an adjustment to the pooled premium receivable was made in the amount of $10,800,000. The company's share of this adjustment is $32,400. The Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due account was reduced by this amount and surplus was decreased by this amount.

Funds Held by or Deposited with Reinsured Companies

The group was unable to provide supporting detail for a portion of the balance on this account. The amount the group could not substantiate was a result of the merger between Commercial Union (nka OneBeacon) and General Accident. See the records retention recommendation in the Loss Section of this report. The amount of the decrease was $835,957 and the company's share of this adjustment is $2,508. Surplus was decreased for the same amount.

Reinsurance Recoverable on Loss and Loss Adjustment Expense Payments

The company was unable to provide supporting documentation for some of its reinsurance recoverable balances reported on Schedule F – Part 3. Many of the reported reinsurance recoverable amounts reported did not agree to the amounts ultimately recovered by the company and the company could not reconcile the asset reported as of December 31, 2001 with amounts recovered. The pooled balance was decreased by $8,114,435 for this unsubstantiated balance. The company's share of this pooled balance is a decrease to this account of $24,343 and a decrease to surplus for the same amount. It is recommended that the company reconcile its reinsurance recoverable balances and write-off any balances that are determined to be unsubstantiated.

Receivable For Securities

The balance in this account is interest due the company, but has not yet been received by the company. This was improperly classified and should have been reported in Interest, Dividends and Real Estate Income Due and Accrued. The amount was below tolerable error and materiality and since it would not result in a change to surplus, the examiner did not make the reclass entry. However, a recommendation is being made to properly classify interest due and not collected in the proper annual statement account. It is recommended that the company report interest receivable in Investment Income Due and Accrued according to the NAIC Accounting and Procedures Manual.

Receivable From Parent, Subsidiaries And Affiliates

The examiner noted that the Investment and Pooling Agreements required quarterly settlements. The December 31, 2001 balance was not settled until September 30, 2002. It is recommended that the company settle affiliated agreements according to the terms of the agreement and at least quarterly according to the agreements filed with the Office of the Commissioner of Insurance.

Loss Reserve and Loss Adjusting Expense Reserve

The Pennsylvania Insurance Department contracted with an independent actuary to review the pooled loss and loss adjusting expense (LAE) reserves of the group. The contract actuary found that the loss and LAE reserves were below their mid-point estimate. The Pennsylvania Department increased the pooled reserves by $408,335,000. This amount includes both loss and LAE reserves, however, no specific break down for this amount. Also, the actuaries could only opine on the net reserves since the group could not provide the necessary information on the gross loss and loss adjusting expenses. The total adjustment for the company is a $1,225,000 increase to loss and loss adjusting expense reserves. The examiner split the total between them by the percentage of the amount of each reserve to the total of both reserves. Loss reserves were increase by $1,029,800 and loss adjusting expense reserves were increased by $195,200. Both increases to reserves decreased surplus by the same amount.

During claims testing, the lead company was unable to provide the examiners 96 out of the 834 requested claim files. It is the responsibility of the company to insure that records are retained for three years pursuant to s. Ins 6.80 (4) (c) (1), Wis. Adm. Code. In addition, the company has been unable to provide supporting detail for accounts pursuant to s. Ins. 6.80 (4) (b), Wis. Adm. Code, as noted in other sections throughout this report. It is recommended that the company insure that all records are retained pursuant to s. Ins 6.80 (4), Wis. Adm. Code.

Reinsurance Payable On Paid Loss And Loss Adjustment Expenses

The review of this account noted that the pooled amount was understated, based on the review of subsequent disbursements relating to this account. The pooled balance was increased by $1,565,799. The company's share of this increase to the liability is $4,698. An adjustment reflecting this change can be found in the Reconciliation of Surplus per Examination section of this report.

Ceded Reinsurance Premiums Payable

It was noted in review of the pooled business that underlying documentation supporting ceded reinsurance premiums payable and the 2001 Annual Statement, Schedule F – Part 3 were inconsistent and in some instances the company was unable to provide evidence that premium liabilities were settled in a timely manner. The pooled balance increase was $3,271,302. The company's share of this amount is $9,814. This amount increased the payable and therefore, decreased surplus.

Subsequent Events

In 2003, the holding company was restructured resulting in a change of control of the company which was accomplished through acquisition of the Northern Assurance Company of America and its subsidiaries, including the company to OneBeacon Insurance Company.

In 2003, OneBeacon Insurance Company signed an agreement for the acquisition of Atlantic Specialty Insurance Company, a subsidiary of Atlantic Mutual, and the purchase of the renewal rights to Atlantic Mutual's commercial insurance business, including reinsurance of the unearned premiums on the acquired book. The overall gross premium written for this book of business is approximately $450 million. The transaction was completed on March 31, 2004.

In 2003, White Mountains Insurance Group, Ltd., announced that it had entered into a definitive agreement with ABB Ltd., to acquire the Sirius Insurance Group, an insurance and reinsurance organization based in Sweden at a purchase price of approximately $450 million. The transaction was completed April 16, 2004. The Sirius companies write property and other short term lines and no longer write financial insurance products.

VIII. CONCLUSION

The examination process was slowed due to the group not responding to requests in a timely manner in the beginning of the examination. This caused the process to last longer than a normal examination.

Assets for the company increased from $52,983,007 in 1996, to the 2001 balance of $59,972,716. Liabilities decreased in the same time frame from $34,305,657 to $21,028,339 largely due to the reduction in the company's pool participation from 1% to 0.3% which occurred in 1999. Surplus increased from $18,677,349 in 1996 to $38,944,378 as of December 31, 2001. $20,165,000 of the surplus increase was due to additional capital paid in.

The company had IRIS Ratio exceptions in several years. The exceptional ratios were due to underwriting initiatives, a merger, pool percentage decrease, reserve strengthening and a capital contribution to the company.

The examination resulted in five recommendations which are listed in the following section. The recommendations relate to listing of agents, reconciling reinsurance recoverables and writing off unsubstantiated balances, appropriate treatment for interest due, settling affiliated balances in accordance with agreements filed with this office and proper records retention.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Agents Listing — It is recommended that before the company begins to solicit business it carefully review and compare the Annual Renewal Billing sent by the commissioner to the company's agent database, promptly initiate an investigation into the reason(s) an agent either does or does not appear on the Annual Renewal Billing when the company shows an active agent appointed to represent the company or appears on the Annual Renewal Billing when the company does not show the agent as appointed to represent the company and take the appropriate action to rectify the situation, to ensure compliance with s. Ins 6.57 (1) and (2), Wis. Adm. Code.

2. Page 26 - Reinsurance Recoverable on Loss and Loss Adjusting Expense Payments— It is recommended that the company reconcile its reinsurance recoverable balances and write-off any balances that are determined to be unsubstantiated.

3. Page 27 - Receivable For Securities — It is recommended that the company report interest receivable in Investment Income Due and Accrued according to the NAIC Accounting and Procedures Manual.

4. Page 27 - Receivable From Parent, Subsidiaries or Affiliates — It is recommended that the company settle affiliated agreements according to the terms of the agreement and at least quarterly according to the agreements filed with the Office of the Commissioner of Insurance.

5. Page 28 - Loss Reserve And Loss Adjusting Expenses Reserves — It is recommended that the company insure that all records are retained pursuant to s. Ins 6.80 (4), Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge